

Pan American Silver Corp.

1 9 9 7 A N N U A L R E P O R T



Pan American Silver is a Canadian silver mining company that produced 2.84 million ounces in 1997 from its Quiruvilca mine in Peru. Since its inception in 1994, the Company has grown to become a prominent name in silver mining, exploration and development. Acquisition of the Dukat silver mine in Magadan, Russia, and the La Colorada silver mine in Zacatecas, Mexico, will add significantly to the Company's low-cost production in the near term. Including other projects in North, Central and South America, Pan American controls over 650 million ounces of silver in reserves and resources.

The Company ended 1997 in good financial condition with \$35.3 million in working capital, including \$31.9 million in cash, no debt, and positive cash flow from its Peruvian operations. The Company is listed on the NASDAQ National Market and The Toronto Stock Exchange and is part of the TSE 300 Index.

The Company's reporting currency is the US dollar. All dollar amounts in this report are expressed in US dollars unless indicated otherwise.

Data on USA properties are described in Imperial units and data on properties in other countries are described in metric units.



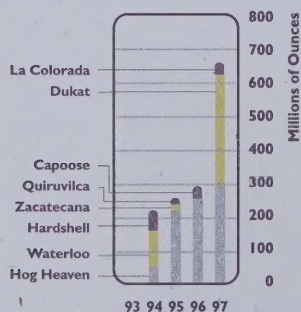
Ross J. Beatty,
Chairman and CEO

1997 was a good year for Pan American Silver. We increased silver production and further improved the financial and operating condition of our Quiruvilca silver mine in Peru. We acquired new silver production opportunities in Mexico and Russia, and maintained active silver exploration programs in Mexico, Peru and Bolivia - the great silver producing countries of the world. Our silver reserves and resources were more than doubled to over 650 million ounces. These achievements

were accomplished while maintaining a strong balance sheet. The Company's performance on The TSE and NASDAQ stock exchanges was exceptional, particularly in light of the weak performance of most other mining companies during the year. At year-end, the Company's market capitalization was \$252 million (fully diluted).

At our Quiruvilca silver mine in northern Peru, the Company's outstanding Peruvian management team and operating workforce was again successful in improving the mine's operating performance. Operating costs per ounce of silver declined throughout the year and new production records were set on almost a monthly basis. We expect this to continue in 1998.

SILVER RESERVES & RESOURCES



Two significant new silver acquisitions were made during 1997 - La Colorada, Mexico and Dukat, Russia. At La Colorada, our plans for 1998 are to construct a large new primary silver mine producing about 3 million ounces per year for production in late 1999. We will also benefit from the experience of a new Mexican management team that will help to guide the Company's future growth in Mexico, the world's largest silver producing country and one with a proud mining heritage similar to that of Peru.

In November, Pan American's 70% owned Russian subsidiary won an international tender to acquire and develop the Dukat silver deposit, one of the world's great primary silver orebodies. In 1998, we will complete a bankable feasibility study and arrange project financing for the develop-

ment of Dukat. Construction will commence in 1999 and production is scheduled to start in late 2000. Dukat contains enormous high grade silver reserves and is an integral part of the Company's strategy to become one of the world's leading primary silver mining companies by the year 2000. Although working in Russia presents many challenges, we believe we can overcome these, with the assistance of our fine Russian mining partner Geometall Plus, and succeed in building one of the world's great new silver mines at Dukat.

On the exploration front, programs were carried out at a number of silver properties in Mexico, Peru and Bolivia. A significant new gold deposit was fortuitously discovered by Operu Resources Inc. early in 1997 on a portion of the Company's Quiruvilca mine

land package. By the end of the year, a large gold mineralized zone was delineated without any spending by Pan American. Additional work will be undertaken on this promising project in 1998, and on several of the Company's other silver exploration properties.

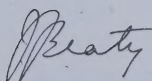
Financially, Pan American remains in good condition with working capital of \$35.3 million, including cash of \$31.9 million, no debt and positive cash flow from mine operations. Pan American provides employment for more than 1,350 people and this should increase in 1998 and 1999 with development of the La Colorada and Dukat silver mines. Exploration and development offices are maintained in Mexico, Peru, Bolivia and Russia.

Silver prices were volatile in 1997. Late in the year, silver's exceptional demand and supply conditions and shrinking global silver inventories stimulated investment demand with resulting higher prices. Warren Buffett's announcement on February 3, 1998 of his purchase of 130 million ounces of silver catalyzed the silver market and brought world attention to silver's strong fundamentals. These fundamentals caused Pan American to establish its silver focus in 1994 and should result in higher silver prices in the years ahead.

In 1997, Pan American made important strides toward its goal of becoming one of the world's leading primary silver mining companies. We substantially increased our silver reserves and resources, set the stage for a five-fold increase in our silver production within the next three years, and continued our efforts to discover new silver deposits. In 1998, we will continue to do what we did very effectively in 1997.

These accomplishments have not happened without great effort by many of the Company's staff and I wish to express to them, on behalf of all shareholders, my appreciation. Our most significant challenge in the coming years will be to maintain the high quality of our motivated, high-energy and efficient staff in order to sustain our rapid growth. I am confident that we can successfully meet this challenge and I trust that you share my sense of optimism for the future.

Respectfully submitted,



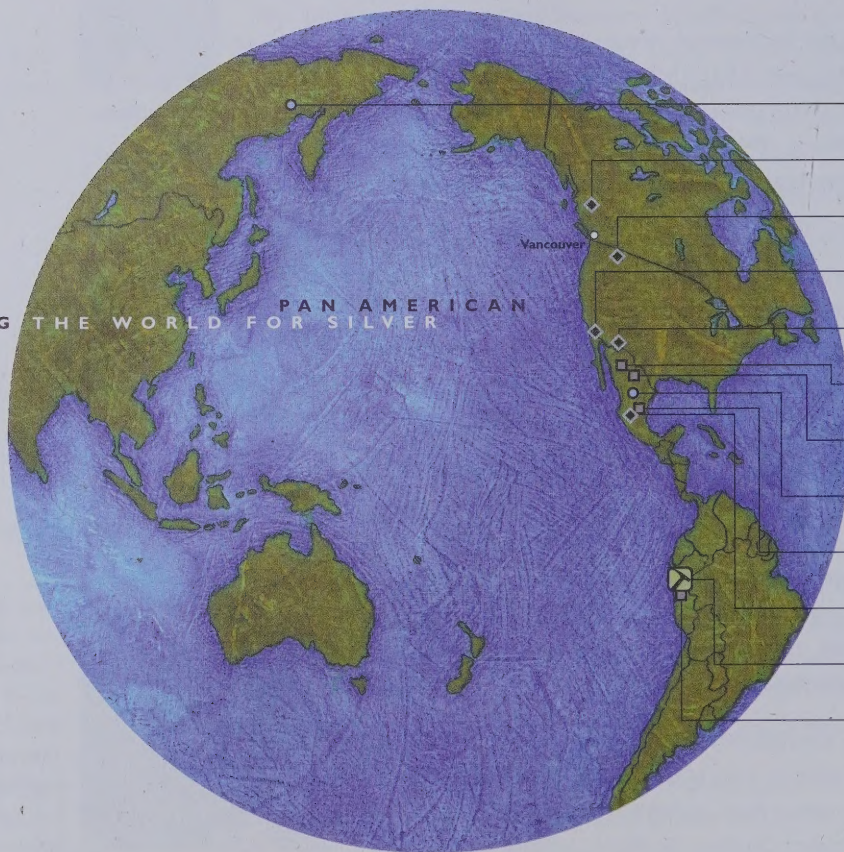
Ross J. Beaty
Chairman
February 15, 1998



Board of directors (L to R)
back row: John Wright,
President and Chief
Operating Officer; Ross
Beaty, Chairman and
Chief Executive Officer;
Bill Fleckenstein; front
row: Ted Fletcher and
Michael Maloney

PROPERTY LOCATIONS

► MINING THE WORLD FOR SILVER



DUKAT MINE
Far East Russia (70%)

CAPOOSE
B.C. (100%)

HOG HEAVEN
Montana (100%)

WATERLOO
California (100%)

HARDSHELL
Arizona (option to 100%)

PARRAL
Mexico (option to 100%)

VALENCIANA
Mexico (100%)

LA COLORADA MINE
Mexico (option to 100%)

LUCITA
Mexico (100%)

ZACATECANA
Mexico (100%)

QUIRUVILCA MINE
Peru (99.7%)

TRES CRUCES GOLD
Peru (50%)

- ◻ Producing Mine
- Development
- Exploration
- ◆ Investment

Pan American began as a silver company in early 1994. In its first year the Company acquired several large fully explored silver deposits containing established silver reserves and resources of about 220 million ounces. These projects need silver prices of \$6 to \$9 per ounce to be economic mines. In late 1995, the Company acquired the large operating Quiruvilca silver mine in Peru from Asarco Incorporated, and through 1996 the Company successfully focused on a financial and technical turnaround of the mine so it would be a long-term generator of operating cash flow. As described in this report, 1997 saw the acquisition of the La Colorada and Dukat projects which set the stage for the strong growth of silver production in coming years.

Pan American's silver projects are described in this report in four broad categories. The **Operations Review** describes the Quiruvilca mine in Peru where silver is being mined. **Development Projects** include the La Colorada and Dukat projects where the Company intends to achieve new production. **Exploration Projects** have had limited work performed on them, but have the potential for discovery of new deposits, such as the Parral and Tres Cruces projects. The Company's **Investment Properties** contain established silver reserves and resources which require a sustained higher silver price to justify initiating production.



- 1) Rosie Moore, V.P.
Corporate Relations
(standing) and Christine
Rampersad, Office Manager
- 2) (L to R) Rosana Perez,
Receptionist and Melanie
Ware, Executive Assistant
- 3) Michel Robert, Senior
Vice President
- 4) (L to R) Tony Hawkshaw,
Chief Financial Officer and
Gordon Jang, Controller

Quiruvilca Silver Mine, Peru

QUIRUVILCA MINE
Peru

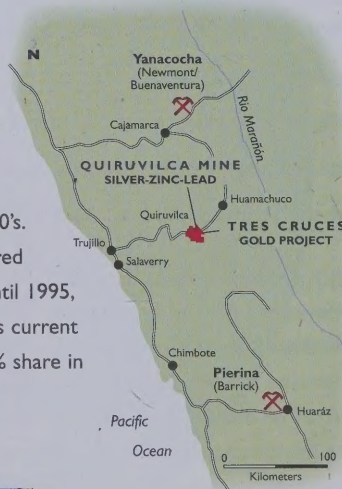


Operations at the Quiruvilca mine, acquired by Pan American in September 1995 and held through a 99.7% interest in Corporación Minera Nor Peru S.A., continued to improve throughout 1997.

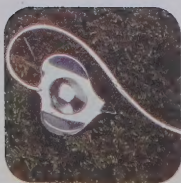
Cash costs of silver produced, net of by-product credits, declined steadily, and averaged \$2.45 per ounce for the year (1996 - \$3.90). Total costs declined to \$3.79 per ounce (1996 - \$4.68). New production records were set on almost a monthly basis and a new annual mill production record of 508,560 tonnes was established.

The Quiruvilca mine is located in the Andean mountains of northern

Peru, 76 kilometers east of the coastal city of Trujillo, at an elevation of 3,800 meters. Quiruvilca is one of the oldest mines in Peru and was probably worked as early as the 1500's. In 1921 a subsidiary of Asarco Incorporated acquired the property and operated the mine from 1925 until 1995, gradually expanding from 200 tonnes per day to its current 1,500 tonne per day capacity. Asarco retains a 20% share in future net profits from the mine.



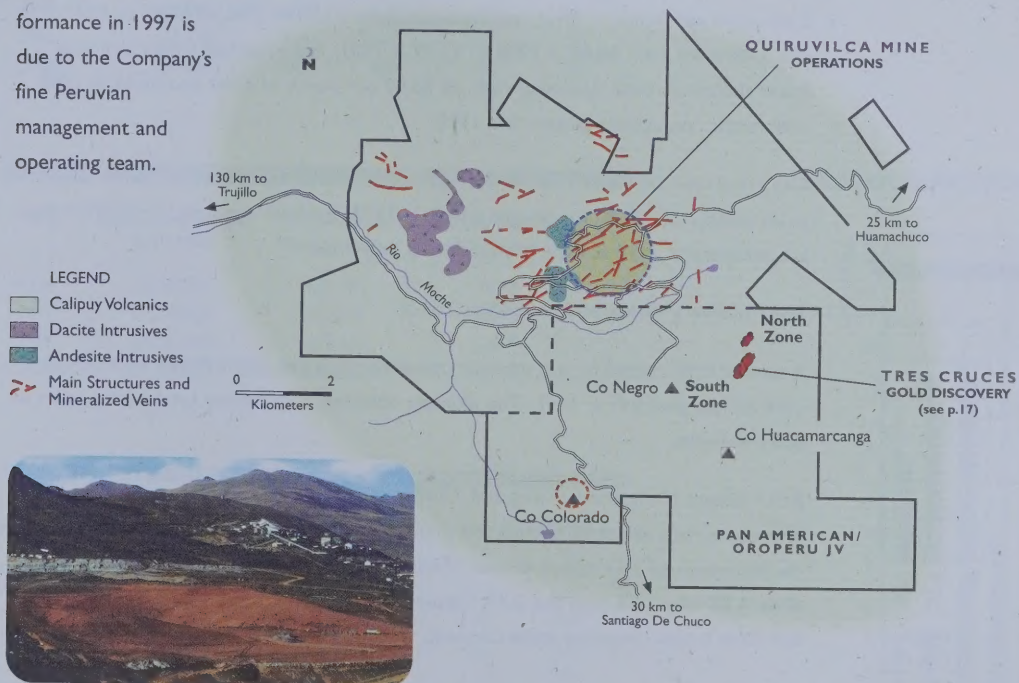
Miners at Quiruvilca



Jewelry is the oldest documented use of silver. Silver ornaments and decorations were found in royal tombs dating from 4000 B.C., and from pre-Incan times in South America. ☺

Quiruvilca's silver ore is hosted in extensive vein systems. The underground workings cover an area four kilometers long by three kilometers wide and extend to more than 400 meters in depth. With more than 100 active stopes, and vein widths averaging 0.7 meters, the mine is very labor intensive and application of state-of-the-art mining technology is limited. The mine's stellar performance in 1997 is due to the Company's fine Peruvian management and operating team.

TARGETS & GEOLOGY - QUIRUVILCA/TRES CRUCES, PERU



METAL PRODUCTION HISTORY - QUIRUVILCA MINE

YEAR	SILVER OUNCES	ZINC TONNES*	LEAD TONNES*	COPPER TONNES*
1993	2,425,339	16,913	5,497	240
1994	2,777,011	18,908	6,285	390
1995	2,506,635	17,663	5,499	878
1996	2,624,213	19,680	5,338	1,047
1997	2,840,648	21,984	5,581	1,281

*Tonnes of metal recovered to respective concentrates

Sterling silver is an alloy composed of 92.5% silver and 7.5% copper. Silver purity is stated in parts per thousand "fineness". Sterling silver, therefore, has a fineness of "925" (meaning 925 parts silver, 75 parts copper per thousand), a mark commonly stamped on sterling silver jewelry or silverware. 



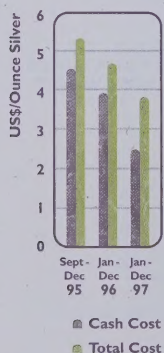
1997 Achievements – Quiruvilca Silver Mine

- ▶ 1997 marked a new annual production record of 508,560 tonnes grading 201 grams per tonne silver, 4.79% zinc, 1.35% lead, and 0.41% copper. Total metal production for 1997 of 2,840,648 ounces of silver, 22,968 tonnes of zinc, 6,321 tonnes of lead and 1,984 tonnes of copper exceeded projections. These operating records are particularly notable because the Quiruvilca mine has been in continuous production since 1926.
- ▶ Cash costs per ounce of silver were reduced from \$3.90 in 1996 to \$2.45 in 1997 and total costs from \$4.68 in 1996 to \$3.79 in 1997. Pan American's objective is to lower the mine's total operating costs to \$3.00 per ounce of silver produced in 1998 with further reductions planned for 1999.
- ▶ Ore processed increased 11% from an average of 38,305 tonnes per month in 1996 to an average of 42,380 tonnes per month in 1997. Further increases in monthly rates are expected in 1998 as mine productivity is improved.
- ▶ Silver recovery increased from 84% to 86.6%.
- ▶ A further 9.4% reduction was made in operating costs per tonne mined from \$54 in 1996 to less than \$49 in 1997. The ultimate objective is to reduce total mining costs to \$35 per tonne.
- ▶ 8,517 meters of diamond drilling and 7,308 meters of drifting were completed in 1997. These programs increased proven and probable reserves, and provided information for the estimation of 2.23 million tonnes of mineral resource grading 212 grams per tonne silver, 4.9% zinc, 1.8% lead and 0.3% copper, contained in possible ore categories, which will allow better long-term mine planning.
- ▶ 1,664 meters of development drifting were completed, including ramping from the 220 to 280 level, development at the 280 level, and tying into the main haulage level.
- ▶ The geology and engineering staff was doubled to improve mine planning and upgrade the overall quality of the workforce.



Main portal at
Quiruvilca Mine

PRODUCTION COSTS



Pan American
Acquisition - Sept. 1, 1995

Cash Cost: Operating cost
net of by-product
revenue

Total Cost: Cash cost
plus G & A, minesite
exploration, royalties,
DD & A, and taxes



Another "pseudo-medical" use of silver – silver is being impregnated into plastics and metals used in computer keyboards, bank teller machines, phone handsets, doorknobs and handles, which are used by "the public" – because of its bactericidal qualities. This may help in stopping the spread of germs and infections. ♡

MINING PRODUCTION HISTORY - QUIRUVILCA MINE

YEAR	TONNES TREATED	SILVER GRADE G/T	ZINC %	LEAD %	COPPER %
1993	399,000	226	4.62	1.61	0.22
1994	466,000	221	4.50	1.58	0.23
1995	452,090	210	4.42	1.48	0.37
1996	459,660	211	4.72	1.40	0.41
1997	508,560	201	4.79	1.35	0.41

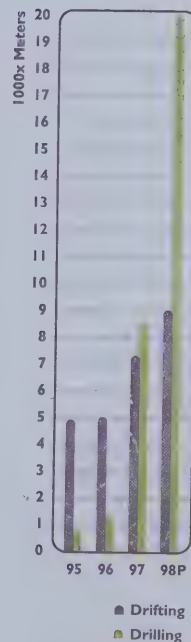
OPERATING COST - QUIRUVILCA MINE

YEAR	DIRECT OPERATING COST US\$	PRODUCTION TONNES MILLED	OPERATING COST US\$/TONNE
1994	23,149,643	465,495	49.73
1995	27,520,606	452,716	60.79
1996	24,725,328	459,660	53.79
1997	24,776,247	508,560	48.72

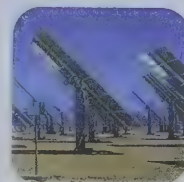
ORE RESERVES HISTORY - QUIRUVILCA MINE

YEAR	TONNES	SILVER G/T	ZINC %	LEAD %	COPPER %
1993	1,420,000	304	5.83	2.13	0.43
1994	2,344,000	240	5.11	1.92	0.40
1995	3,078,000	209	4.70	1.63	0.46
1996	2,612,100	224	5.14	1.72	0.43
1997	2,904,395	248	5.68	1.83	0.60

DRIFTING & DRILLING



Silver has the highest reflectivity of light in the visible portion of the spectrum of any metal meaning it can be buffed to a higher polish than all other metals. For this reason silver is used widely in mirror backings.



Environment

Due to its long operating history, several significant environmental issues existed when the Company acquired the Quiruvilca mine. During 1997, \$1.46 million was spent to stabilize and begin expansion of the existing tailings facility. This resulted in cutting acid rock drainage, reducing surface and ground water contamination, and bringing the facility to North American standards for stability. For its accomplishments, Corporacion Minera Nor Peru was awarded in August 1997, an Environmental Recognition Award by the National Mines and Petroleum Society of Peru. In addition, a new water purification system substantially improved the potable water quality at Shorey, the townsite that houses many of the Company's employees. Major environmental projects for 1998 include construction of a mine water treatment plant and rehabilitation of the San Felipe tailings facility.

Capital Investments

Major projects for 1997 included completion of the first phase of a two-stage mine deepening project, tailings stabilization, expansion of the tailings dam, and installation of a trolley system with new locomotives on the main haulage level. Investment on these projects totaled \$5.1 million. Major capital projects for 1998 include completion of mine deepening, construction of a water treatment facility, and completion of tailings dam expansion for a total investment of approximately \$10 million.

ORE RESERVES, DECEMBER 31, 1997

	TONNES	SILVER G/T	ZINC %	LEAD %	COPPER %	OUNCES SILVER
Proven and Probable	2,904,395	248	5.68	1.83	0.60	23,158,215
Possible	2,230,000	212	4.9	1.8	0.3	15,200,000
Total	5,134,395	232	5.34	1.82	0.47	38,358,215



The United Kingdom's pound sterling also has obvious ties to the value placed historically on silver. The monetary unit peso signifies the weight of silver needed to purchase an object. The United Kingdom's pound sterling also has obvious ties to the value placed historically on silver.



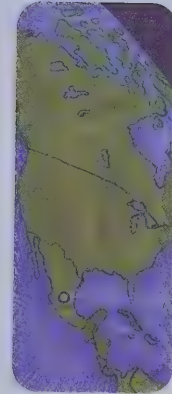
PROPERTY LOCATIONS - ZACATECAS STATE, MEXICO

La Colorada, Mexico

In September, Pan American agreed to acquire 100% of the La Colorada silver mine subject to a five month, 5,000

meter program of surface and underground drilling to confirm and expand reserves. The La Colorada mine is located approximately 130 kilometers northwest of the city of Zacatecas in north central Mexico and has had historical production of approximately 30 million ounces. Zacatecas State, Mexico, is still the largest primary silver producing region in the world, with historic production estimated at over 2 billion ounces of silver. On March 13, the Company concluded the purchase of La Colorada for \$2.1 million and 304,000 common shares.

Mineralization at La Colorada is hosted in classic epithermal silver-lead-zinc veins typical of the region, and in mineralized breccia pipes. The two veins that have seen most of the historic mining, the Candelaria and No Conocida veins, average 500 grams of silver per tonne and 2% combined lead and zinc. These vein systems are often poorly exposed at surface but "bloom" underground and along strike, where they remain open for delineation. Proven and probable reserves for the two known veins were estimated in 1996, by independent consultants, at 1.07 million tonnes grading 486 grams per tonne silver (approximately 17 million ounces silver), plus 1% lead and 1% zinc. At least 10 kilometers of vein extensions remain to be explored and defined on the 1,000-hectare property.



LA COLORADA MINE

Drilling at La Colorada mine





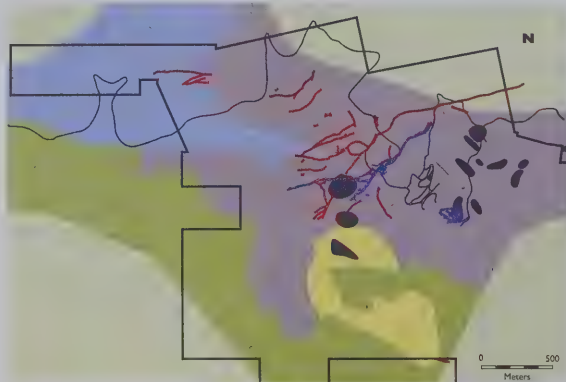
Lower grade silver but higher grade lead-zinc mineralization is hosted at La Colorada in numerous, unexplored breccia pipes. At least a dozen of these bodies are exposed at surface on the property and one was partially exploited in historic underground mining. Indicated and inferred

resources on the breccia pipes total over 14 million tonnes grading 93 grams per tonne silver (approximately 42 million ounces silver) with 2% lead and 1% zinc. Historic exploration of the breccia pipes has been minimal. The potential for discovery of significant bulk-minable bodies is considered to be excellent.

Pan American's goal during due diligence drilling between September 1997 and February 1998 was to confirm and expand the known reserves. Drilling returned excellent results. Due to the expansion potential of the project, and the condition of the existing mine and mill facility, Pan American plans to construct a new mill on-site rather than incrementally adding to the existing 200 tonne per day infrastructure. Total capital costs for the project are estimated at about \$20 million, with \$5.2 million budgeted for 1998. Construction of the mine/mill complex is expected to begin in late 1998 with production starting in late 1999 at the rate of approximately 3 million ounces of silver per year.

GEOLOGY MAP - LA COLORADA, MEXICO

- LEGEND
- Cretaceous Limestones and Shales
 - Trachyte Flows
 - Trachyte Conglomerates
 - Rhyolite Lapilli and Crystal Tuffs
 - Breccia Pipes
 - Veins
 - Underground Mine Workings
 - Road



Dukat Mine, Russia

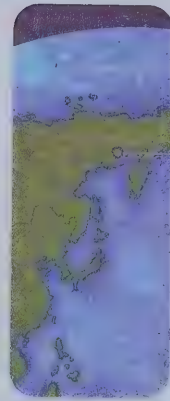
On November 17, 1997 an open international tender was held for the Dukat mining license. Situated in Magadan Oblast, far eastern Russia, Dukat was the country's largest silver producing mine until the breakup of the Soviet Union. The tender was won by Dukat Silver Company (ZAO Serebro Dukat), a Russian company 70% owned by Pan American Silver and 30% by Geometall Plus, a well-known and respected mining company from Magadan.



The Dukat mine is the third largest known primary silver deposit in the world. It is located 400 kilometers north-east of Magadan City and 400 kilometers southwest of the new 300,000 ounce per year Kubaka gold mine. The Dukat deposit was discovered in the 1970's and mined, predominately by open-pit methods, from 1979 to 1995. Ore was trucked 42 kilometers to a processing facility where a concentrate was produced. The concentrate was trucked, barged and railed over 10,000 kilometers to a smelter in Kazakhstan. Production for this period was more than 6 million tonnes of ore grading 44.1 grams

per tonne silver and 1.4 grams per tonne gold (87 million ounces of silver and over 250,000 ounces of gold). After the breakup of the Soviet Union the operating company became insolvent and mining ceased.

Silver mineralization at Dukat consists of argentite, native silver and electrum hosted in steeply dipping veins and structures that cut Cretaceous rhyolites. The veins are up to 15 meters thick, average 4 meters thick, and extend over an area of 2.5 by 3.5 kilometers.



DUKAT MINE



Town of Dukat

Official geological "reserves" calculated by Russian agencies for the Dukat mine are 31.36 million tonnes grading 473 grams per tonne silver and 0.98 grams per tonne gold (477 million ounces of silver and 1 million ounces of gold). Ore reserves are well defined by continuous samples taken in over 200 kilometers of underground drifts. A check-sampling program conducted by the Company showed excellent correlation with Russian assay results.

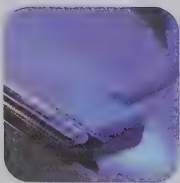
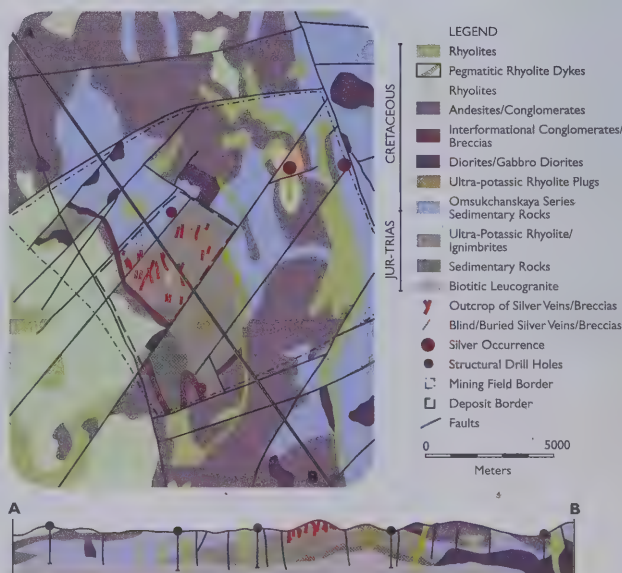
In late 1997, Pan American contracted a Canadian-Russian engineering joint venture of Kvaerner Metals and GOT Engineering to complete a bankable feasibility study on a new mine at Dukat. This study will be completed in mid-1998. Preliminary discussions for bank financing and with Russian authorities regarding tax levels and silver export arrangements are underway. Once a financing term sheet has been accepted, Pan American and Geometall will split project development costs on a 70:30 basis. Total projected capital costs are \$150 million. It is expected that underground development will commence in late 1998, with construction in mid-1999 and silver production late in the year 2000.

The deposit will be exploited as a high-grade underground mine. The ore will be processed in a new mill to be constructed at the mine site with a capacity of 930,000 tonnes per year. The process circuit will consist of crushing, grinding, flotation and electrowinning allowing production of high grade silver-gold doré on site. Preliminary estimates of recoveries are 90% for silver and 95% for gold. This will result in total annual production of 14 million ounces of silver and 25,000 ounces of gold from Dukat, which will add 10 million ounces of silver production per year to Pan American's credit.



Town of Omsukchan
in winter

GEOLOGY MAP - DUKAT REGION, MAGADAN, RUSSIA



Silver has the highest electrical and thermal conductivities of any metal, even when tarnished. In a rating scale of 0 to 100, silver is a 100, with copper at 97.6 and gold at 76.6. For this reason, silver is widely used in electrical circuitry. Silver batteries yield a high energy output per unit size and weight and are commonly used in defense and space applications. $\rightarrow$

Doing Business in Russia

Pan American's senior management has visited and reviewed projects in the former Soviet Union since 1991 and has spent much of the past two years in Russia while working on Dukat due diligence investigations and business negotiations. It is true that conditions for profitable mining of Russian ore deposits remain difficult due to complex laws, high taxes and royalties, and onerous regulatory requirements. It is also true that conditions in Russia for business generally, and for mining in particular, have improved fundamentally in recent years and are certain to continue to improve in the near future. This situation is logical given the complete transformation of the Russian economy from a communist, centrally planned economy to a market economy in only six years. Any recent visitor to Russia cannot fail to be impressed at the incredible positive transformation of the country's business, social and political environment. These changes are irreversible.



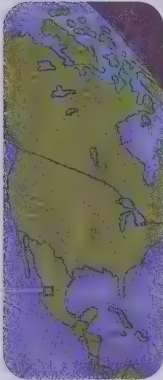
After economic index declines in Russia for several years, 1997 marked the first year of growth in GNP and in agricultural production. A new tax code will be approved in 1998, which will eliminate many existing taxes. Inflation was reduced in 1997 to below 10%. Major world banks are established in Russia, full repatriation of capital is recognized and Russia has been admitted to the Paris Club and Group of Seven world trade organizations.

Pan American will model much of its Dukat development after the successful \$220 million Kubaka gold mine development carried out 400 kilometers north of Dukat by Cyprus-Amax from 1994-1997. Pan American's efforts will require the support of the local (Magadan) and federal (Moscow) governments. Both have clearly stated their commitment to implement policies that will attract Western investment. Important issues such as silver exports, labour policies and tax and royalty levels are under review by Russian authorities and improvements are expected in the near future. While our work in reviewing and securing the Dukat project has been difficult and often frustrating to date, we are very optimistic that Pan American has entered Russia at a pivotal time and that the Company will be a long-term member of a growing Russian mineral industry that will prosper under internationally competitive business conditions.

The Company's portfolio of exploration projects includes properties in Mexico, Peru and Bolivia, the most active of which are described below.

The Company's focus is to explore 100% owned silver properties with reserve potential of at least 50 million ounces.

PARRAL
LUCITA
VALENCIANA



Parral, Mexico

The Parral project consists of 600 hectares containing several large formerly producing silver mines located near the town of Parral, 190 kilometers south of the city of Chihuahua, Mexico. Pan American holds an option to purchase a 100% unencumbered interest by October, 2001. Historic production is estimated at over 400 million ounces of silver. Due to its extensive mining history, the property has excellent access and infrastructure. During 1998 Pan American will explore the seven-kilometer surface strike and down-dip extensions of the principal historic producing structure, the Colorada vein. Targets will include both oxide and sulfide mineralization. A 3,000 meter drill program commenced at Parral in February 1998.

Lucita and Valenciana, Mexico

These two 100% owned properties are located in Zacatecas State, Mexico. Following unsuccessful drilling programs in 1996, Pan American carried out little exploration work in 1997. Interest in the region has increased significantly with the recent discovery of two large massive sulfide deposits in the region. Potential joint ventures are now being discussed with third parties on both properties.



Geologists (L to R)

Dr. Philip (P.P.)

Robertson (P.P.)

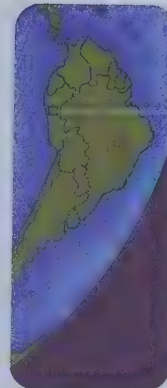
Mineral (P.P. Corporate

Relations), Jenna Hardy

(Manager - Environment
and Technical Services)

Banco Mio, Peru

The right to acquire a 100% interest in the Banco Mio project, located 300 kilometers northeast of Lima, was acquired by Pan American in late 1997. The main exploration target at Banco Mio is the potential for very high-grade vein mineralization. Samples to date average over 900 grams per tonne silver plus 15% combined lead and zinc mineralization. Exploration work in 1998 will include further sampling and diamond drilling.



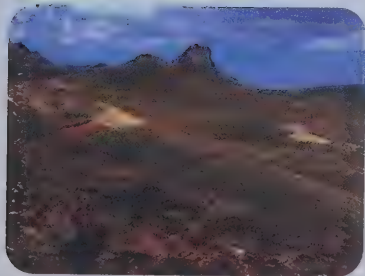
BIANCO MIO
TRES CRUCES

Tres Cruces, Peru

The Tres Cruces property forms part of the Quiruvilca mine land package and is centered 5 kilometers southeast of the mine. Gold mineralization was discovered in late 1996 by Oropu Resources Inc. of Vancouver on its 100% owned adjoining land and followed onto the Quiruvilca property. A 50:50 joint venture was agreed to and the properties were pooled. Oropu was required to spend the first \$1 million in exploration costs. During 1997, Oropu performed surface mapping, sampling and a 61-hole (13,580 meter) reverse circulation and core drilling program to complete its earn-in expenditures. This program generated a number of thick intercepts of gold mineralization and delineated a significant new gold occurrence.

The Tres Cruces project is very similar in geologic setting, and lies approximately midway between, Newmont's 13 million ounce Yanacocha mine, 110 kilometers to the north, and Barrick's 7 million ounce Pierina deposit 170 kilometers to the south. Host rocks for all three epithermal deposits are volcanics of the Tertiary Calipuy Formation. Gold mineralization at Tres Cruces occurs beneath an extensive hydrothermal silica cap and is associated with sulfides. Surface alteration covers an area of approximately 3 by 5 kilometers and exploration drilling has focused on a 400 by 1200 meter zone near the center. A preliminary resource of 30.8 million tonnes grading 2.00 grams per tonne of gold (nearly 2 million ounces of gold) has been defined by drilling to date. Metallurgical testwork is underway

and geophysical surveys, additional drilling and preliminary mine feasibility work will be carried out in 1998. The property has excellent potential for additional gold mineralization. Access is very good and much of the infrastructure for open-pit mining already exists. Pan American intends to continue exploring this promising property in order to maximize its value to shareholders, but does not plan to retain the property in the long-term, as its primary value is gold.



Silica sinter and dirt
roads at Tres Cruces



Pan American's leverage to higher silver prices is partly based on its holding of large established silver deposits which are economic at prices of \$6 to \$9 per ounce silver.

The investment properties have extensive exploration histories, feasibility studies completed, in some cases preliminary permitting documents in place, and mostly proven and probable resources confirmed. If silver prices rise in the future, these properties have the potential to add substantially to the Company's silver production profile and profitability.

RESERVES AND RESOURCES

PROPERTY	LOCATION	TONS	TONNES	AG GRADE		AG OZ	BY-PRODUCTS	AG PRICE NEEDED US\$
		MILLIONS	MILLIONS	OPT	GPT	MILLIONS		
Quiruvilca	Peru		2.9	248		23.1	5.7% Zn, 1.8% Pb, 0.6% Cu	producing
						15.2	4.9% Zn, 1.8% Pb, 0.3% Cu	
Dukat	Russia		31.4	473		476.9	1.0 gpt Au	current
La Colorada	Mexico		2.0	489		34.0	1.1% Pb, 1.1% Zn	current
Zacatecana	Mexico		7.8	74		18.5	0.45 gpt Au	current
Hog Heaven	Montana	11.2		4.34		48.7	0.019 opt Au	6.00
Waterloo	California	37.2		2.71		100.9	13.4% Barite	7.00
Hardshell	Arizona	20.0		3.35		67.0	8% Mn	8.00
Capoose	B.C.		29.3	36		32.7	0.34 gpt Au	9.00

Total* 673.9 million ounces

*with Pan American's 70% share of Dukat



The primary uses of silver are generally well known: approximately one third of annual production is consumed in photography; another third goes into the production of silverware and jewelry; and the remainder is used in what are commonly referred to as "industrial applications", literally hundreds of industrial uses which take advantage of silver's unique physical properties.

Silver has the highest electrical conductivity of all metals. In fact, silver defines conductivity - all other metals are compared against it. On a scale of 0 to 100, silver ranks 100, with copper at 97 and gold at 76. Because of this property, and because it doesn't spark easily, silver is commonly used in electrical circuits and contacts. Silver is also utilized in batteries where dependability is mandatory and weight restrictions apply, such as those for portable surgical tools, hearing aids, pace-makers and space travel.

Silver is the most reflective metal, which means that it can be polished to "give back" as much light as hits it. The film coating on mirror backings is a common "industrial" use of silver. Besides vanity uses, mirrors are important components in telescopes, microscopes and solar panels.

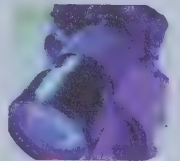
Silver is the best heat conductor of all metals. Its uses in solar panels and automobile rear window defoggers take advantage of this quality.

Silver alloys readily with gold and copper and is commonly combined with one or both for manufacture of dental fillings and fixtures, jewelry and silverware. Sterling silver contains 92.5% silver and 7.5% copper. 14 karat gold consists of 53% gold, 25% silver and 22% copper.

Silver has the capacity to join, or "wet", other metals at temperatures far below their melting points. It is for this reason that silver brazing alloys and solders are commonly used in tubing and electrical conduits for household appliances such as refrigerators and dishwashers.

Silver has a pure sweet acoustic resonance, better than any other metal, and is preferred by musicians for making high quality silver bells and musical instruments.

One of the most fascinating properties of silver is its bactericidal quality. Small concentrations of silver or silver salts kill bacteria by chemically affecting the cell membranes, causing them to break down. Bacteria do not develop resistance to silver, as they do to many antibiotics. Because of its bactericidal properties, silver nitrate drops are used to clean the eyes of newborns in much of the world. Silver rich cremes are common household ointments for burns. Cotton gauze soaked in silver solution is proving a miracle cure for intensive care burn victims. While silver keeps bacteria at bay, it also cauterizes minor capillaries, preventing blood loss, and the buildup of excessive scar tissue. Silver gauze is used to pack wounds of patients during transport to medical facilities. It is relatively inert in the human body, so it is commonly used to pin fractured bones, and sew large wounds. Silver-based water purification systems, both portable and industrial, are gaining widespread popularity.



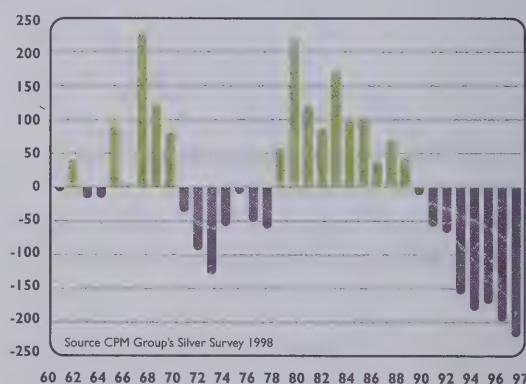
Pan American's principle business objectives are to grow profitably without a need for higher silver prices, and to have outstanding share price leverage if silver prices do trend higher in coming years. In 1997, the Company grew significantly despite an actual decline in silver prices from an average of \$5.21 in 1996 to \$4.91 in 1997. The price of silver in 1997 ranged from a low of \$4.18 on July 16 to a high of \$6.39 on December 24th.

On February 3, 1998, silver's very strong demand and supply fundamentals were highlighted by the announcement by the famous investor, Warren Buffett, that his company had purchased 130 million ounces of silver. Silver prices immediately rose to a high of \$7.81 and still remain over \$6 per ounce. Buffett's investment in silver bullion stimulated investment demand for silver and for shares of the few primary silver mining companies such as Pan American.

On February 24, 1998, the independent New York research firm CPM Group published its annual silver supply and demand study. This showed very robust demand growth of 5.5% in 1997 to 799 million ounces, with strong demand increases in all silver use sectors. Silver usage in photography increased 4.9%, in jewelry and silverware 7.7%, and in electronics and batteries 8.6%. Silver supply in 1997 rose 5.8% to 585 million ounces and the resulting supply deficit increased to over 210 million ounces.

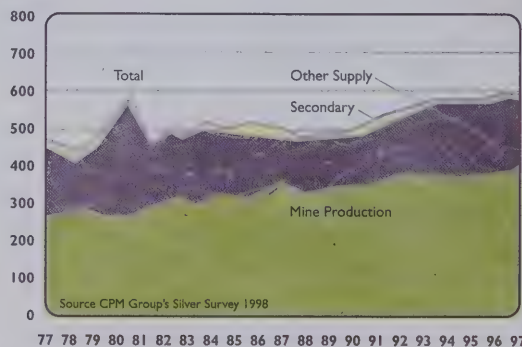
SILVER MARKET SURPLUS/DEFICIT

Millions of Ounces



SILVER SUPPLY BY SECTOR

Millions of Ounces

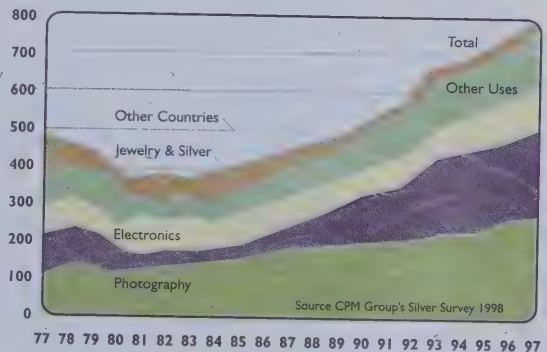


Since 1990, CPM estimates that worldwide silver inventories have declined by 80% from 1.6 billion ounces to about 350 million ounces. Central banks hold insignificant silver reserves (in contrast to their gold holdings). Silver inventories on the COMEX declined 46% in 1997 to 109.8 million ounces. These are very bullish fundamentals that strongly support the recent price rise over \$6 per ounce.

The very strong fundamentals of the silver market and recent confirmation of these by one of the world's best known investors have supported Pan American's views that silver prices will likely continue to rise modestly into the 21st Century. In this context, Pan American will continue to discover, acquire and produce as much low-cost silver as possible to meet its objective of becoming one of the world's great silver mining corporations.

SILVER FABRICATION DEMAND

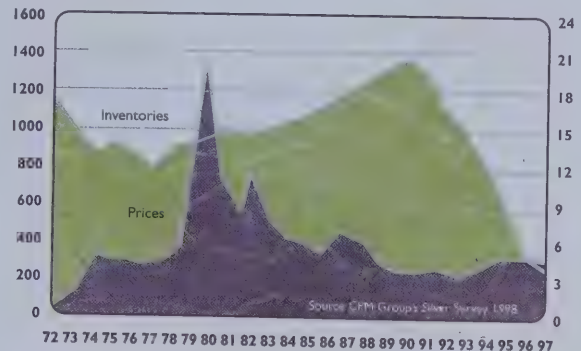
Millions of Ounces



SILVER BULLION INVENTORIES & SILVER PRICES

Millions of Ounces

\$/Ounces



**MANAGEMENT'S RESPONSIBILITY
FOR FINANCIAL INFORMATION**

The consolidated financial statements and all information in the Annual Report are the responsibility of the Board of Directors and management. The consolidated financial statements have been prepared by management in accordance with the accounting principles generally accepted in Canada from information available to February 13, 1998. Financial information presented throughout the Annual Report is consistent with the information presented in the consolidated financial statements.

The Audit Committee of the Board of Directors meets with management to ensure that management maintains systems of internal and administrative controls to provide reasonable assurance that financial information is accurate. The Audit Committee also meets with the Company's external auditors to review the scope and results of their audit and auditors' report prior to submitting the consolidated financial statements to the Board of Directors for approval.

The consolidated financial statements have been audited by Deloitte & Touche, Chartered Accountants, who were appointed by the shareholders. The Auditors' Report sets out the scope of their examination and their opinion on the consolidated financial statements.

Statements contained in this Annual Report that are not historical facts are "forward-looking statements" as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are subject to risks and uncertainties which could cause actual results to differ materially from estimated results. Important factors that could cause actual results to differ materially from those in such forward-looking statements are identified in the Company's Annual Information Form and Form 40-F, which are filed with securities regulatory authorities in Canada and the United States. The Company assumes no obligation to update its forward-looking statements to reflect actual results, changes in assumptions or changes in other factors affecting such statements.



Anthony Hawkshaw
Chief Financial Officer
Vancouver, Canada
February 13, 1998

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS

This discussion and analysis should be read in conjunction with the consolidated financial statements. The Company's reporting currency is the United States dollar. All amounts in this discussion and in the consolidated financial statements are expressed in United States dollars, unless identified otherwise.

Nature of the Company's Business, Risks and Uncertainties

Pan American Silver Corp. ("Pan American" or the "Company") is a silver exploration, development and mining company. The Company's Quiruvilca mine is located in Peru. In addition to silver, the Quiruvilca mine produces copper, lead and zinc. Pan American conducts acquisition, exploration and development activities throughout the world.

The Company's success depends on a number of factors. Typical risk factors include metal price fluctuations and operating hazards encountered in the mining business. Competition for silver resource properties, producing mines or interests in producing companies may limit opportunities to acquire reasonably priced assets. Future government, legal or regulatory changes could affect any aspect of the Company's business including, among other things, the title to properties, environmental permitting and costs, labour relations, or the ability to import required equipment or materials. Many of these factors are beyond the Company's control; however, risks and uncertainties are managed, in part, by experienced managers, by maintaining adequate liquidity, by cost control initiatives and by geographic diversification. Pan American does not have any business critical information systems that will be affected by the Year-2000 computer problem, nor does management believe that the Company would be adversely affected by any such problem that might affect its major suppliers or customers.

Outlook for 1998

Management anticipates that 1998's production will be slightly more than 1997's. The Quiruvilca mine should produce 3.0 million ounces of silver at costs which should not exceed those of 1997. Exploration costs are expected to increase by \$0.8 million from 1997's costs and amount to \$2.9 million. Corporate office costs and general and administration expenses are expected to increase by \$0.5 million. Depreciation and amortization expenses will increase by an estimated \$1.2 million if additional capital assets are placed into service as planned. Reclamation expense should increase by \$0.2 million. The Peruvian government has reduced its tax on capital. Investment income is expected to decrease as cash is applied to capital projects.

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS

Revenue will change as metal prices change – a ten per cent increase or decrease in either the price of silver or zinc would increase or decrease revenue by five per cent. A similar increase or decrease in the price of either lead or copper would increase or decrease revenue by one per cent. A ten percent depreciation of the Peruvian sole relative to the United States dollar would decrease operating costs by approximately four per cent. Corporate office costs are incurred in Canadian dollars. In January 1998, the Canadian dollar depreciated in value relative to the United States dollar and the Company purchased Canadian \$2.5 million, which should be enough to satisfy the year's requirement for Canadian dollars.

Unions represent mine workers. Contracts with those unions expired at year end. New contracts are being negotiated. Pan American maintains good relations with the unions and the result of negotiations is not expected to have a material impact on operations.

Pan American held silver call options with an expiry date of March 27, 1998. In February 1998, the options were sold for a gain of \$370,000.

Pan American sold forward 9,600 tonnes of zinc – 800 tonnes per month throughout 1998 – at an average selling price of \$1,340 per tonne. In February 1998, these sales were closed out for a gain of \$1.5 million.

From December 31, 1997 to February 13, 1998, the Company issued 241,300 shares upon the exercise of warrants and stock options. The proceeds realized were \$2 million (Cdn\$3.1 million).

The Company sells its metal in concentrate under long-term contracts. All of these contracts run until the end of 1998. Management believes that extending or replacing these contracts will not present any unusual difficulties.

Liquidity and Capital Resources

Cash and short-term investments amounted to \$31.9 million at December 31, 1997 – a decrease of \$10.9 million from December 31, 1996. The decrease was due to expenditures on resource properties of \$7.3 million and \$6.8 million on property, plant and equipment, which were partially offset by cash generated from operations of \$1.9 million, cash from share issues of \$0.9 million and \$0.3 million from the sale of investments. Of the \$7.3 million spent on resource properties, Dukat represented \$6.2 million. For 1998, planned spending

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS

on plant and equipment is \$10.5 million including \$2.8 million related to projects that were started in 1997. It is unlikely that all planned projects will be completed in 1998; therefore, the actual cash expenditure will be somewhat less than \$10.5 million. After 1998, capital spending for expansion and modernization at Quiruvilca is expected to decline significantly. The possibility of future development at La Colorada or Dukat will require substantial capital resources, however, any such spending is discretionary. Planned capital spending on resource properties is \$4.1 million. At December 31, 1997, liabilities relating to Peruvian employee severance indemnities accrued before 1990 were \$1.5 million of which \$0.1 million, that is included in current liabilities, must be paid during 1998. The Company must discharge this liability by June 30, 2000.

Working capital was \$35.3 million at December 31, 1997, which compares to \$47.3 million at December 31, 1996. The decrease in working capital is principally due to the decrease in cash previously discussed. Significant, offsetting changes in working capital include a \$1.7 million increase in accounts receivable, a \$0.4 million increase in concentrates inventory, a \$0.2 million increase in supplies inventory, a \$0.5 million increase in prepaid expenses and a \$3.5 million increase in advance payments for concentrates shipments.

The quantity, at year end, in dry metric tonnes, of concentrates in inventories was:

	1997	1996	1995
Zinc concentrate	1,677	6,562	9,330
Lead concentrate	2,887	408	2,278
Copper concentrate	185	161	1,112

Non-cash working capital requirements for 1998 are expected to be unchanged from December 31, 1997. Planned capital spending and exploration will be funded from operating cash flow and the Company's treasury. Exploration costs include planned spending on certain advanced-stage projects. Should the exploration results at any of those projects prove encouraging, the Company may spend additional funds on such projects.

At December 31, 1996 cash and short-term investments were \$42.8 million and working capital was \$47.3 million compared to working capital of \$28.6 million at December 31, 1995. The increases in cash and working capital were due to issuing common shares for net proceeds of \$27.5 million. Cash was used to fund spending on property, plant and equipment (\$4.5 million), resource properties (\$1.4 million), to pay severance indemnities (\$2.8 million), and to finance changes in non-cash working capital items (\$1.7 million). Non-cash working capital changes included an increase in accounts receivable of \$1.2 million, increased inventories of \$0.7 million and prepaid expenses and deposits of \$0.7 million offset by increased accounts payable and severance indemnities of \$0.9 million.

**MANAGEMENT'S DISCUSSION & ANALYSIS OF
FINANCIAL CONDITION & THE RESULTS OF OPERATIONS**

Results of Operations – 1997

For the year ended December 31, 1997, the Company's net loss was \$0.9 million (\$0.04 per share) compared to a net loss for 1996 of \$1.9 million (\$0.09 per share). Mining profit (revenue minus operating costs) of \$2.2 million and investment and other income of \$3.0 million were offset by exploration expenses of \$2.1 million, depreciation of \$2.0 million, capital taxes of \$0.1 million, general and administration costs of \$1.6 million and a provision for reclamation of \$0.2 million. The \$0.7 million improvement in mining profit is principally due to higher revenue from the sale of zinc, cost control measures and productivity improvements. The \$1.4 million increase in investment income is due to a \$0.3 million gain on the sale of an investment, \$0.4 million on silver option trading and the higher average balance of short-term investments when compared to 1996. The increase in exploration expense was caused by higher direct exploration expenditures in Mexico and property investigation activities in Russia and South America. General and administration expense has increased as a result of the Company's growth.

Silver recovered during the year was 2,840,648 ounces compared to 2,624,213 ounces for 1996. Silver production and costs both improved as planned.

The costs per ounce of silver were:

	1997	1996	1995
Cash cost	\$ 2.45	\$ 3.90	\$ 4.05
Production cost	3.21	4.35	4.46
Total cost	\$ 3.79	\$ 4.68	\$ 5.01

Cash costs include direct mining costs, net of by-product credits, royalties and production-related taxes, mine management and administration. Production costs include cash costs, depreciation, depletion, amortization and reclamation. Total costs include production costs, general and administrative costs, exploration, capital taxes, and net investment income but exclude non-recurring gains from the sale of investments.

Recovered silver is contained in three separate concentrates – zinc, copper and lead. Sales of concentrates and average prices realized per dry metric tonne of concentrates was:

Concentrate	1997		1996		1995	
	Tonnes	Price	Tonnes	Price	Tonnes	Price
Zinc	43,517	\$ 367	37,546	\$ 325	9,330	\$ 311
Lead	6,684	\$ 646	9,238	\$ 772	2,278	\$ 764
Copper	6,125	\$ 1,156	6,501	\$ 1,211	1,112	\$ 1,229
Precipitate	585	\$ 853	427	\$ 673	146	\$ 1,103

MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION & THE RESULTS OF OPERATIONS

The Quiruvilca mine's monthly average production, recovery factors and underground development for the following years were:

	1997	1996	1995
Tonnes milled	42,380	38,305	37,674
Zinc concentrate – tonnes	3,233	2,878	2,645
Lead concentrate – tonnes	762	699	731
Copper concentrate – tonnes	515	509	347
Silver recovered	86.6%	84.0%	82.0%
Zinc recovered	90.2%	89.8%	88.4%
Lead recovered	81.1%	81.5%	81.8%
Copper recovered	61.3%	61.1%	52.8%
Development – meters	519	409	409

Results of Operations – 1996

For 1996, the Company's net loss was \$1.9 million (\$0.09 per share) compared to a net loss for the year ended December 31, 1995 of \$0.9 million (\$0.07 per share). In 1996, mining profit, (revenue minus operating costs) of \$1.5 million and investment income of \$1.5 million were offset by exploration expenses of \$1.5 million, a \$0.5 million write down of a resource property, depreciation of \$1.2 million, capital taxes of \$0.3 million and general and administration costs of \$1.4 million. The \$1.6 million improvement in mining profit was due to operating for a full year, cost control measures and productivity improvements. Increases in exploration expense and property write downs were due to increased exploration efforts and property investigation costs. General and administration expense increased because of the Company's growth.

AUDITORS' REPORT

To the Shareholders of Pan American Silver Corp.

We have audited the consolidated balance sheets of Pan American Silver Corp. as at December 31, 1997 and 1996 and the consolidated statements of operations and deficit and changes in financial position for the years ended December 31, 1997, 1996 and 1995. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years ended December 31, 1997, 1996 and 1995 in accordance with generally accepted accounting principles.



CHARTERED ACCOUNTANTS

Vancouver, B.C.

February 13, 1998

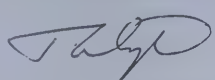
CONSOLIDATED BALANCE SHEETS

(in thousands of U.S. dollars)
As at December 31

	1997	1996
Assets		
Current		
Cash and short-term investments	\$ 31,861	\$ 42,794
Marketable securities	75	24
Accounts receivable	5,629	3,921
Concentrate inventory	2,600	2,162
Supplies inventory	3,264	3,026
Prepaid expenses	1,750	1,206
	45,179	53,133
Property, plant and equipment, net (Note 4)	13,725	8,922
Resource properties (Note 5)	13,175	5,562
Other	61	61
	\$ 72,140	\$ 67,678
Liabilities		
Current		
Accounts payable and accrued liabilities	\$ 4,853	\$ 4,097
Advance payments for concentrate	4,916	1,335
Current severance indemnity (Note 9)	148	370
	9,917	5,802
Provision for reclamation	191	-
Severance indemnity (Note 9)	1,408	1,334
	11,516	7,136
Shareholders' Equity		
Share capital (Notes 6 and 11)		
Authorized: 100,000,000 common shares of no par value		
Issued: December 31, 1997 - 23,899,669 shares		
December 31, 1996 - 23,709,169 shares		
	67,590	66,643
Cumulative foreign exchange adjustment	221	182
Deficit	(7,187)	(6,283)
	60,624	60,542
	\$ 72,140	\$ 67,678

Approved by the Board


Ross J. Beaty, Director


John H. Wright, Director

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

For the years ended December 31
(in thousands of U.S. dollars)

	1997	1996	1995
Revenue	\$ 27,789	\$ 27,561	\$ 6,175
Costs			
Operating	25,613	26,035	6,280
Depreciation and amortization	1,981	1,210	354
Reclamation	191	-	-
	27,785	27,245	6,634
Operating income (loss)	4	316	(459)
Expenses			
Exploration	2,097	1,506	509
General and administration	1,604	1,375	644
Capital taxes	116	345	-
Exchange loss (gain)	41	(45)	(86)
	3,858	3,181	1,067
Net loss before undernoted items	(3,854)	(2,865)	(1,526)
Investment income, net	2,950	1,521	585
Gain on sale of subsidiary	-	-	230
Write-down of resource property	-	(519)	(226)
Net loss for the year	(904)	(1,863)	(937)
Deficit at beginning of year	(6,283)	(4,420)	(3,483)
Deficit at end of year	\$ (7,187)	\$ (6,283)	\$ (4,420)
Loss per share (Note 6c)	(\$0.04)	(\$0.09)	(\$0.07)
Weighted average shares outstanding	23,776,308	21,693,969	14,127,028

See accompanying notes to consolidated financial statements

CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended December 31
(in thousands of U.S. dollars)

	1997	1996	1995
Operating activities			
Sales proceeds	\$ 29,454	\$ 24,309	\$ 6,242
Hedging activities	342	-	-
Other income and expenses	2,299	1,521	585
Silver options trading gains	25	-	-
Silver options mark-to-market adjustments	350	-	-
Products and services purchased	(27,018)	(25,014)	(8,269)
Exploration	(2,200)	(1,151)	(509)
General and administration	(1,162)	(1,111)	(611)
Severance payments	(148)	(2,763)	(470)
Capital taxes	(19)	(345)	-
	1,923	(4,554)	(3,032)
Investing activities			
Additions to property, plant and equipment	(6,759)	(4,483)	(1,208)
Resource properties	(7,269)	(1,374)	(539)
Acquisition of subsidiary	-	-	(3,478)
Proceeds from working capital of subsidiary acquired	-	-	2,092
Purchase of marketable securities	(75)	-	(24)
Proceeds from sale of marketable securities	293	-	-
Acquisition of cash of subsidiary	-	-	257
Disposition of subsidiary	-	-	230
Proceeds from sale of subsidiary	-	-	24
Other	7	(137)	3
	(13,803)	(5,994)	(2,643)
Financing activities			
Shares issued for cash	947	27,556	30,520
Shares issued for subsidiary	-	-	3,005
Special warrants issued, net of issue costs	-	-	(7,237)
	947	27,556	26,288
Increase (decrease) in cash and short-term investments for the year	(10,933)	17,008	20,613
Cash and short-term investments at beginning of year	42,794	25,786	5,173
Cash and short-term investments at end of year	\$ 31,861	\$ 42,794	\$ 25,786

See accompanying notes to consolidated financial statements

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995

(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

1. Nature of Operations

The Company is a silver mining company. The recoverability of amounts capitalized for resource properties depends on the discovery, development or exploitation of ore reserves or resources.

2. Significant Accounting Policies

The Company's consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada as set out below. Significant differences from United States accounting principles are disclosed in Note 12.

a) Basis of presentation

These consolidated financial statements are expressed in United States dollars and include the accounts of the Company and its subsidiaries. All intercompany transactions and accounts have been eliminated.

Certain comparative figures have been reclassified to conform with the classification adopted in the current year's consolidated financial statements.

b) Inventories

Concentrate inventories are stated at the lower of average cost and net realizable value determined by using the first-in, first-out method. Supplies inventories are carried at the lower of average cost and replacement cost.

c) Property, plant and equipment

i) Property

Acquisition costs of resource properties together with direct exploration and development expenditures thereon are deferred. Once in production these costs will be amortized on a units-of-production basis over a property's expected economic life. When deferred expenditures on individual producing properties exceed the estimated net recoverable value, the properties are written down to the estimated value. Deferred costs relating to abandoned properties are written-off. Exploration carried out on producing ore bodies is charged to operations.

ii) Plant and equipment are stated at the lower of cost or estimated net recoverable value. Maintenance, repairs and renewals are charged to operations. Betterments are capitalized.

Depreciation is calculated over the lesser of an asset's estimated useful life and the life of the property to which it relates.

d) Reclamation costs

Ongoing reclamation costs are charged to earnings in the period they are incurred. Estimated future costs for reclamation are accrued on a units-of-production basis.

e) Foreign currency translation

The accounts of self-sustaining foreign operations are accounted for by the current rate method. Under this method assets and liabilities are translated into U.S. dollars at prevailing rates of exchange at each balance sheet date and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations.

Foreign currency transactions and balances and accounts of integrated foreign operations are accounted for by the temporal method. Under this method monetary items are translated at the exchange rate in effect at the balance sheet date, non-monetary items are translated at historical rates, and revenue and expense items are translated at exchange rates prevailing when such items are recognized in the statement of operations.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995
(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

f) *Derivative financial instruments*

The Company uses forward sales agreements and option contracts for the purpose of managing price on anticipated metal sales. These instruments are accounted for as a hedge of anticipated transactions and are not recorded on the balance sheet of the Company. Option premiums and gains and losses from these contracts are recorded in income in the period that production is delivered.

At times, when the Company believes that the price of silver is low, speculative option contracts may be purchased. These contracts are marked-to-market at each reporting date and gains or losses are included in income.

g) *Cash and short-term investments*

Cash and short-term investments include cash and highly liquid, fixed income securities or term deposits with an AA or better credit rating, an average yield of 5.8% (1996 - 5.4%) and an average term to maturity of six months.

3. **Business Acquisition**

On September 1, 1995, the Company acquired an 80% voting interest (53% equity interest) in Corporacion Minera Nor Peru S.A. ("Nor Peru"). Between September 1, 1995 and December 31, 1995, the Company increased its ownership in Nor Peru to a 100% voting interest (99.7% equity interest). The acquisition was accounted for by the purchase method and the results of operations of Nor Peru have been consolidated from September 1, 1995. The consideration paid and the allocation of the purchase price were:

Consideration paid on August 31, 1995 (500,000 common shares)	\$ 2,749
Consideration paid after August 31, 1995:	
Cash	473
Common shares (159,955 shares)	256
	\$ 3,478

The allocation of the purchase price is as follows:

Cash	\$ 302
Accounts receivable	4,405
Inventories	5,191
Prepaid expenses	166
Property, plant and equipment	5,078
Other	252
Accounts payable and accrued liabilities	(7,472)
Severance indemnity	(4,444)
Net assets acquired	\$ 3,478

In addition to the 500,000 common shares paid on August 31, 1995, the Company issued 500,000 non-transferable common share purchase warrants to the vendor of Nor Peru. Each common share purchase warrant allows the holder to purchase one common share of the Company for C\$7.50 until December 31, 1999. In exchange for certain indemnifications aggregating a maximum of \$4 million, the seller retained a 20% net profits royalty.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995

(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

4. Property, Plant and Equipment

	Cost	Accumulated depreciation	1997 Net	1996 Net
Property	\$ 258	\$ 60	\$ 198	\$ 221
Plant and equipment	14,626	3,408	11,218	8,600
Construction in progress	2,109	-	2,109	-
Other	262	62	200	101
	\$ 17,255	\$ 3,530	\$ 13,725	\$ 8,922

Construction in progress consists of capital projects or improvements that have not been placed into service. The Company will depreciate the asset commencing from the date that it is put into service.

5. Resource Properties

Resource properties consist of:

	1997	1996
Dukat, Russia	\$ 6,210	\$ -
Waterloo, U.S.A.	4,101	4,051
La Colorada and other Mexican properties	2,690	1,465
Other	174	46
	\$ 13,175	\$ 5,562

Dukat, Russia

In November 1997 the Company was awarded the right to develop and exploit the Dukat silver mine in Magadan Oblast, Far East Russia for a payment of \$5 million. Concurrently, the Company engaged an engineering company to carry out a study of the economic feasibility of developing and exploiting the mine. The estimated cost of this study, \$1.3 million, is being deferred.

Waterloo, U.S.A.

The Company acquired a 100% interest in the Waterloo silver-barite property located in the Calico Mining District of San Bernardino County, California. The purchase price was \$1 million and 1,000,000 common shares issued at an ascribed value of \$2,917,675 (C\$3,980,000).

La Colorada and Other Mexican Properties

In 1997 the Company agreed to acquire the La Colorada silver mine located in Zacatecas State, Mexico. Exploration and investigation costs have been deferred and the acquisition should be finalized in March 1998. The acquisition cost will be \$2.1 million, 304,000 shares of the Company and a 5% NSR royalty of which 3% may be bought out within five years for \$2 million.

The Company obtained a concession permit in April 1995 covering a silver tailings deposit in Zacatecas State in Central Mexico. The Company must also make minimum annual advance royalty payments of \$25,000. This property is subject to a net profits royalty and a net smelter return royalty ("NSR"). The NSR may be bought out for \$2 million.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995
(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

6. Share Capital

a) Changes in issued shares were as follows:

	Number of Shares	Amount
Issued as at December 31, 1994	10,254,714	\$ 5,562
Shares issued in exchange for special warrants	6,000,000	25,198
Special warrants issue costs	-	(1,141)
Shares issued for cash on exercise of warrants	2,600,000	6,261
Shares issued for cash on exercise of stock options	326,500	202
Shares issued in exchange for subsidiary (Note 3)	659,955	3,005
Issued as at December 31, 1995	19,841,169	39,087
Shares issued for cash on exercise of warrants	1,750,000	10,332
Shares issued in exchange for special warrants	2,000,000	17,592
Special warrants issue costs	-	(985)
Shares issued for cash on exercise of stock options	118,000	617
Issued as at December 31, 1996	23,709,169	66,643
Shares issued for cash on exercise of stock options	190,500	947
Issued as at December 31, 1997	23,899,669	\$ 67,590

b) As at December 31, 1997, the following shares are reserved for issuance:

	Number of Shares	Exercise Price	Expiry Date
Warrants (Note 11b)	716,000	\$9.79 (C\$14.00)	April 30, 1998
	500,000	\$5.24 (C\$7.50)	December 31, 1999
	1,216,000	\$7.91 (C\$11.33)	
Options (Note 11a)	30,000	\$6.47 (C\$9.25)	May 9, 1998
	103,500	\$0.19 (C\$0.26)	January 31, 1999
	16,000	\$1.93 (C\$2.65)	May 31, 1999
	930,500	\$6.75 (C\$9.25)	September 24, 2000
	40,000	\$7.16 (C\$10.25)	July 5, 2001
	390,000	\$6.47 (C\$9.25)	May 8, 2002
	70,000	\$6.47 (C\$9.25)	July 15, 2002
	77,500	\$6.47 (C\$9.25)	October 2, 2002
	20,000	\$8.88 (C\$12.70)	November 25, 2002
	150,000	\$6.47 (C\$9.25)	September 24, 2005
	1,827,500	\$6.11 (C\$8.74)	
	3,043,500	\$6.83 (C\$9.77)	

c) The net loss per share has been calculated on the basis of the weighted average number of shares outstanding during the period. Fully diluted loss per share has not been presented because the effect would be anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995

(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

7. Financial Instruments

Fair value

The Company's financial instruments include cash, accounts receivable and accounts payable.

The carrying value of these financial instruments reported on the balance sheet reflects their approximate fair value due to their terms or their terms to maturity.

Concentration of Credit Risk

In 1997, 1996 and 1995 the Company's two customers accounted for 100% of concentrate revenue.

The loss of either of these customers or curtailment of purchases by such customers could have a material adverse effect on the Company's results of operations and financial condition.

Derivatives

The Company entered into hedging transactions, for the period August 1997 through December 1998, for a portion of its production from the Quiruvilca mine. These transactions consisted of the sale of 800 tonnes of zinc at an average price of \$1,374 per tonne. For the year ended December 31, 1997, the Company realized income of \$342,000 from its hedged position. The market value of the open zinc contracts on December 31, 1997 was \$2,247,000 (Note 11d).

The Company purchased call options for 500,000 ounces of silver which mature on March 27, 1998. The carrying value of these options as at December 31, 1997 was \$200,000 (market value - \$550,486) (Note 11d).

8. Segmented Information

The Company operates in one industry and seven countries. The operating activities and identifiable assets for the respective periods are as follows:

Revenue for the year:

Revenue of \$27,789,000 (1996 - \$27,561,000; 1995 - \$6,175,000) was generated in Peru. Interest and other income were generated in Canada, Peru and Barbados.

	1997	1996	1995
Net income (loss) for the year			
Peru	\$ (235)	\$ (400)	\$ (967)
Canada	(746)	(812)	275
Mexico	(174)	(28)	(9)
United States	-	(3)	(34)
Bolivia	(305)	(503)	(226)
Barbados	556	(117)	24
	\$ (904)	\$ (1,863)	\$ (937)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995
(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

	1997	1996
Identifiable assets		
Peru	\$ 29,027	\$ 14,322
Russia	6,699	-
Canada	5,388	2,438
Mexico	2,925	1,486
United States	4,236	4,144
Bolivia	125	84
Barbados	23,740	45,204
	\$ 72,140	\$ 67,678

9. Commitments

The Company must, by June 30, 2000, discharge an obligation to Peruvian employees for employee severance indemnity ("ESI") that had accumulated at December 31, 1990. One-tenth of the obligation is to be paid each year until the year 2000 when the outstanding balance must be paid. At December 31, 1997 the unpaid obligation amounted to \$1,556,000 (4,247,000 Peruvian nuevos soles) of which \$148,000 is reflected in current liabilities and due in 1998.

10. Income Taxes

The Company has \$1,413,000 (C\$1,953,000) of non-capital losses available to apply against future Canadian income for tax purposes. These losses will expire over the next seven years. The Company has approximately \$20,000,000 of non-capital losses available to apply against future Peruvian income for tax purposes which will expire three years after the first year of utilization of these losses. Due to the uncertainty of ultimate realization, the potential benefit of these losses has not been recorded in the accounts.

11. Subsequent Events

Subsequent to December 31, 1997, the Company:

- a) issued 47,300 shares for cash of \$280,812 (C\$404,525) from the exercise of employee stock options;
- b) issued 194,000 shares for cash of \$1,708,757 (C\$2,716,000) from the exercise of share purchase warrants;
- c) issued 19,946 shares at an ascribed value of C\$12.70 per share in exchange for service agreements with former managers of the Dukat operating company (Note 5); and
- d) closed out its zinc hedging program effective for the period March through December 1998 realizing a gain of \$1,543,000 and sold its silver call options for a gain of \$370,000. For January and February 1998, the realized gain from the hedging program was \$495,000.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995

(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

12. Differences Between Canadian and United States Generally Accepted Accounting Principles

The consolidated financial statements are prepared in accordance with accounting principles generally accepted in Canada ("Canadian GAAP") which differ in certain respects with accounting principles generally accepted in the United States ("US GAAP"). Had the Company followed US GAAP, certain financial statement items would have been reported as follows:

- a) i) US GAAP requires non-cash investing and financing activities to be excluded from the consolidated statement of cashflows, whereas Canadian GAAP requires these activities to be included.
- ii) US GAAP requires exploration costs to be expensed until there is substantial evidence that a commercial body of ore has been located, whereas Canadian GAAP allows exploration costs to be deferred during the process.

The cumulative effect on the balance sheets of the Company prepared in accordance with US GAAP would reduce total assets in 1997 by \$4,182,000, 1996 by \$1,913,000 and increase accumulated deficit by the corresponding amounts.

	1997	1996	1995
Consolidated Statement of Operations			
Net loss under Canadian GAAP	\$ (904)	\$ (1,863)	\$ (937)
Resource property exploration expenditures expensed	(2,269)	(1,374)	(539)
Net loss under US GAAP	\$ (3,173)	\$ (3,237)	\$ (1,476)
Basic loss per share under US GAAP	(\$0.13)	(\$0.15)	(\$0.10)

	1997	1996	1995
Consolidated Statement of Changes in Financial Position			
<i>Operating activities</i>			
Operating activities under Canadian GAAP	\$ 1,923	\$ (4,554)	\$ (3,032)
Products and services purchased	-	-	230
Exploration	(2,269)	(1,374)	(539)
Operating activities under US GAAP	\$ (346)	\$ (5,928)	\$ (3,341)
<i>Investing activities</i>			
Investing activities under Canadian GAAP	\$ (13,803)	\$ (5,994)	\$ (2,643)
Issued shares for acquisition of subsidiary	-	-	3,005
Deferred exploration	2,269	1,374	539
Disposition of subsidiary	-	-	(230)
Investing activities under US GAAP	\$ (11,534)	\$ (4,620)	\$ 671
<i>Financing activities</i>			
Financing activities under Canadian GAAP	\$ 947	\$ 27,556	\$ 26,288
Issued shares for acquisition of subsidiary	-	-	(3,005)
Financing activities under US GAAP	\$ 947	\$ 27,556	\$ 23,283

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 1997, 1996 and 1995

(Tabular amounts are in thousands of U.S. dollars, except for per share amounts)

Interest paid during 1997 was \$210,000 (1996 - \$333,000; 1995 - \$173,000).

Cash and cash equivalents with original maturities of three months or less at December 31, 1997 were \$25,061,000 (1996 - \$10,969,000; 1995 - \$25,786,000).

b) *Loss per share*

Under US GAAP, in accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128) Earnings per Share, effective for periods ending after December 15, 1997, basic loss per common share is based on the weighted average number of common shares outstanding for the period. This statement replaces the presentation of primary loss per share which calculated the weighted average number of shares by adjusting for the dilution effect of common stock equivalents using the treasury method. The fully diluted loss per share under US GAAP assumes that the outstanding stock options and warrants have been exercised (using the treasury stock method). The effect of these adjustments was not dilutive for 1997, 1996 or 1995.

c) *Stock based compensation*

Statement of Financial Accounting Standards No. 123 (SFAS 123) Accounting for Stock Based Compensation, defines a fair value based method of accounting for employee stock options. Under this fair value method, compensation cost is measured at the date of grant based on the fair value of the award and is recognized over the exercise period. However, SFAS 123 allows an entity to continue to measure compensation cost in accordance with Accounting Principle Board Statement No. 25 ("APB 25"). The Company has elected to measure compensation costs related to stock options in accordance with APB 25 and has recognized no compensation expense for stock options granted.

d) *Other*

The application of Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes, would not create any accounting differences or adjustments.

e) *Recent U.S. pronouncements*

The Financial Accounting Standards Board issued Statement No. 130 (SFAS 130), *Reporting Comprehensive Income*, which is required to be adopted for financial years beginning after December 15, 1997. SFAS 130 establishes standards for the reporting and display of comprehensive income and its components. The impact of SFAS 130 on the Company's financial statements is not expected to be material.

The Financial Accounting Standards Board issued Statement No. 131 (SFAS 131), *Disclosures About Segments of an Enterprise and Related Information*, which is required to be adopted for financial years beginning after December 15, 1997. SFAS 131 establishes new standards for the reporting of certain selected segmented information on interim reports to shareholders.

OFFICERS & DIRECTORS

Board of Directors

Ross J. Beaty
John H. Wright
J.E. Fletcher
Michael J. J. Maloney
William A. Fleckenstein

Senior Management

Ross J. Beaty
Chairman and Chief Executive Officer
John H. Wright
President and Chief Operating Officer
Tony Hawkshaw
Chief Financial Officer
Michel Robert
Senior Vice President
Andres Dasso
Executive Director, Pan American Silver Peru S.A.
Mario del Rio
General Manager, Corporacion Minera Nor Peru S.A.
Stuart Moller
VP Exploration
Rosalie C. Moore
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Authorized Capital

100,000,000 common shares
without par value

Issued Capital

December 31, 1997:
23,899,669 shares

Shares Listed

Toronto Stock Exchange
Trading Symbol: PAA
NASDAQ
Trading Symbol: PAASF



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